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22 July 1987

MEMORANDUM FOR: Distribution

SUBJECT: Inter-Agency Meeting

TYPE OF MEETING	<u>r' Economic Policy Council</u>
DATE	<u>Friday, 24 July 1987</u>
TIME	<u><del>1100</del> 0945</u>
PLACE	<u>Roosevelt Room</u>
CHAired BY	<u>Baker</u>
ATTENDEE(S) (probable)	<u>NIO/Econ</u>
SUBJECT/AGENDA	<u>S&amp;T Agreement with Japan</u>
	<u> </u>
	<u> </u>
PAPERS EXPECTED	<u>Agenda by COB 23 July</u>
INFO RECEIVED	<u>Per Cabinet Affairs, 1615</u>

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*Deane Hoffmann  
attended*

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**EXECUTIVE SECRETARIAT  
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Remarks  
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Executive Secretary

23 July 87

Date

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THE WHITE HOUSE  
 WASHINGTON

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**CABINET AFFAIRS STAFFING MEMORANDUM**

Date: July 22, 1987 Number: 490,673 Due By: \_\_\_\_\_

Subject: Economic Policy Council Meeting -- July 24, 1987 -- 11:15 a.m.

Roosevelt Room

ALL CABINET MEMBERS	Action	FYI		Action	FYI
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input checked="" type="checkbox"/>	<input type="checkbox"/>	NSF	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Justice	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Carlucci	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Labor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Cribb	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input type="checkbox"/>	Bauer	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HUD	<input type="checkbox"/>	<input type="checkbox"/>	Dawson (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
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Chief of Staff	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Executive Secretary for:	<input type="checkbox"/>	<input checked="" type="checkbox"/>
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REMARKS: The Economic Policy Council will meet on Friday, July 24, 1987 at 11:15 a.m. in the Roosevelt Room. The agenda and background papers are attached for your review. 0945

RETURN TO:

Nancy J. Risque  
 Cabinet Secretary  
 456-2823  
 (Ground Floor, West Wing)

Associate Director  
 Office of Cabinet Affairs  
 456-2800  
 (Room 235, OE0B)



THE WHITE HOUSE  
WASHINGTON

July 22, 1987

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: EUGENE J. McALLISTER <sup>EM</sup>

SUBJECT: Agenda and Papers for the July 24 Meeting

The agenda and papers for the July 24, 1987 meeting of the Economic Policy Council are attached. The meeting is scheduled for 11:15 a.m. in the Roosevelt Room.

The first agenda item will be a discussion of our negotiating objectives in renewing the U.S.-Japan Science and Technology Agreement. The Committee on International Science, Engineering, and Technology (CISSET) has developed for the Council's consideration principles to guide S&T relations with Japan and guidelines for U.S. representatives negotiating the renewal of the Agreement. A paper prepared by the CISSET is attached.

The second agenda item will be a discussion of U.S. objectives for the Uruguay Round. A paper prepared by the TPRG outlining our objectives in several key areas is attached.

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ECONOMIC POLICY COUNCIL

July 24, 1987  
11:15 a.m.  
Roosevelt Room

AGENDA

1. S&T Agreement with Japan
2. U.S. Objectives for the Uruguay Round

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## U.S.-Japan Science and Technology Agreement:

### Objectives and Guidance

In October 1987, the U.S. Presidential Science and Technology Agreement with Japan expires. This provides the U.S. with opportunities to:

1. Convey to Japan the importance the Administration places on achieving balance and cooperation in science and technology, trade, transfer, and investment;
2. Establish in the S&T agreement with Japan principles for balance and cooperation that reflect U.S. science, commercial, and trade interests, consistent with national security and foreign policy interests. These principles would apply to most existing and all future U.S. S&T agreements and MOUs with Japan to achieve consistency in:
  - (a) U.S. negotiations abroad; and
  - (b) U.S. domestic planning and policymaking.
3. Provide a potential umbrella of principles for S&T agreements and MOUs with advanced trading partners and Western allies.

In February of this year, the President's Science Advisor and his Japanese counterpart agreed to negotiate major changes in the current U.S.-GOJ Agreement based upon draft proposals to be presented by the U.S. side.

The Committee on International Science, Engineering, and Technology (CISET), a Working Group under the Economic Policy Council, has developed for the Council's consideration: (1) common principles to guide S&T relations with Japan, and (2) guidelines for U.S. representatives negotiating the renewal of the Presidential Agreement.

#### I. Principles for Balance and Cooperation

The Working Group unanimously recommends that the following broad principles be the foundation for U.S. S&T relationships and negotiations with Japan

1. A balanced and fair S&T relationship requires equitable responsibilities (not necessarily identical) and reciprocal opportunities for participation in each other's S&T enterprise.

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2. The U.S. and Japan share responsibilities for: (a) generating new knowledge and technologies to fuel prosperity and security needs of the Western Alliance; (b) maintaining an open basic research environment and disseminating scientific and technical information; (c) supporting open academic basic and applied research; and (d) nurturing the next generation of scientists and engineers.
3. The U.S. and Japan share responsibility for the adequate protection of intellectual property rights and the disposition of patents and copyrights, trade secrets, and know-how arising from collaborative activities.
4. The U.S. and Japan share responsibility for protecting the national security interests of the Western Alliance by providing for the adequate protection of dual use technologies and classified and unclassified research activities and results subject to the export control regime.
5. The U.S. and Japan share responsibilities for sponsoring and financing large-scale R&D projects that address problems at the frontiers of knowledge. When the U.S. and Japan agree to collaborate in such projects, they should share costs in proportion to their risk, benefit, and management shares.

### II. Guidance for U.S. Negotiators in Renewing the Presidential Agreement:

The Working Group developed a number of proposals and internal objectives to guide U.S. representatives in negotiating the renewal of the Presidential Agreement.

The Working Group seeks the Council's guidance on the following possible items.

1. That the Administration agree internally to the following areas as priorities for U.S.-Japan S&T negotiation and subsequent collaboration:
  - a. life sciences, including biotechnology;
  - b. information science and technology;
  - c. manufacturing technology;
  - d. automation and process control;
  - e. global geo-science and environment; and
  - f. joint database development.

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2. That the U.S. propose that Japan initiate programs to:
  - a) place American researchers at national R&D facilities in Japan including, but not limited to, activities under MITI's Agency for Industrial Science and Technology and GOJ-sponsored research programs such as, ERATO; Next Generation Research Program; Japan Key Technology Center; and ICOT.
  - b) provide intensive language and cultural programs for visiting American scientists and engineers at key Japanese public and private education facilities.
  - c) establish [100] annual "Japan Fellowships" in S&T for U.S. students and postdoctoral; and
  - d) join with the U.S. in establishing a Scientific and Technical Information Committee (STI) for monitoring reciprocal access and participation in U.S. and Japanese R&D programs.

Under these initiatives and programs, the GOJ will maintain and accommodate visiting U.S. scientists and engineers consistent with standard practices in other U.S. bilateral S&T agreements.

3. That the U.S. request that the GOJ agree to include the draft Ciset intellectual property annex under the Presidential Agreement that, among other things, describes how the ownership and disposition of rights to inventions made by visiting scientists at host facilities should be fairly and equitably allocated.
4. That the U.S. stipulate as a condition for implementation of a renewal of Presidential Agreement that the GOJ implement the 1956 Patent Secrecy Law requiring the GOJ to accept for filing and protection as secret U.S. patent applications that are classified or held in secret for national security purposes. (This condition is consistent with the U.S. position recently negotiated for Japanese participation in SDI).
5. [That the GOJ initiate and significantly increase support over the next five years for research and training initiatives with developing countries at R&D facilities in Japan and in developing countries.]
6. That the GOJ initiate open dissemination of scientific and technical information and research results to the world community, including measures ensuring that:
  - a. S&T reports and data produced by GOJ agencies and their contractors not published in the open literature be made available in English language abstracts through

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- a central source in a manner comparable to NTIS, and through expansion of the NTIS/JICST joint program;
- b English language abstracts be published for S&T information published in Japanese journals, as is customary in other nations, including China and the USSR.
7. That the Joint Review Committee of the Presidential Agreement, co-chaired by the Science Advisor to the President and the Director of the Science and Technology Agency in Japan, address, as necessary, all policy issues in science and technology cooperation between the U.S. and Japan, monitor the results of cooperation, initiate new actions, and provide a comprehensive annual report to the respective governments.
8. That the Joint Committee be supported by a joint interagency executive committee chaired in the U.S. by the Department of State and including all interested agencies. This committee will have both domestic and bilateral responsibilities, including:
- a) reviewing all agency-to-agency U.S.-GOJ S&T agreements for policy consistency using:
- i) the principles of the Presidential Agreement;
- ii) Executive Order 12591 Facilitating Access to Science and Technology; and
- iii) the Circular 175 process.
- b) assisting Federal agencies in applying the provisions of Executive Order 12591, in particular with regards to reciprocity provisions (the so-called Dole amendment); and
- c) establishing subgroups to monitor bilateral research activities in internally-designated U.S. high-priority S&T areas, including superconductivity, and cooperative efforts under major, large-scale national projects, including those endorsed at the Head-of-State level.
9. That the U.S. request the GOJ to establish a Joint High Level Advisory Panel of eminent S&T leaders, appointed on the U.S. side by the President's Science Advisor, to advise bilaterally on priority S&T issues. A majority of members should be from nongovernmental institutions.

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III. Potential Consequences of Failing to Achieve an Improved Agreement

10. That the U.S. negotiating team will begin negotiations as soon as an interagency text embodying the approved principles and guidelines has been developed and agreed upon. The negotiations will be conducted consistent with the normal process for concluding international agreements. The Economic Policy Council will be kept apprised.
11. In the event we cannot obtain these principles and guidelines, the Council may wish to recommend to the President other options, including: (a) allowing the agreement to lapse; or (b) taking other remedial actions for achieving balance and reciprocity in S&T relationships with Japan.

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 OFFICE OF THE UNITED STATES  
 TRADE REPRESENTATIVE  
 EXECUTIVE OFFICE OF THE PRESIDENT  
 WASHINGTON  
 20506

July 22, 1987

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: THE TRADE POLICY REVIEW GROUP  
 SUBJECT: URUGUAY ROUND: REVIEW OF U.S. POLICY

The TPRG met on July 17 to review U.S. policies and objectives in the Uruguay Round negotiations. There was broad agreement on these policies and objectives as well as on the need for the Administration to make a major effort this fall to move the negotiations forward. Developments in the Uruguay Round since the September 1986 Ministerial meeting in Punta del Este are briefly summarized below along with the key U.S. objectives, and the problems facing us, in each of the Uruguay Round negotiating groups.

The Uruguay Round of trade negotiations was officially launched at a Ministerial meeting of GATT Contracting Parties on September 20, 1986 at Punta del Este, Uruguay. Shortly thereafter, 15 negotiating groups were established to conduct negotiations on the subjects identified in the Ministerial Declaration (tariffs, nontariff measures, textiles, natural resources, agriculture, safeguards, MTN agreements, subsidies/CVDs, investment, tropical products, services, intellectual property, GATT articles, dispute settlement, and functioning of the GATT system -- or FOGS). A surveillance body has been established to oversee the implementation of the standstill/rollback commitments. The surveillance body reports directly to the TNC. Except for services, these negotiating groups report to the Group on Negotiations in Goods (GNG). Both the GNG and the Group on Negotiations in Services report to the Trade Negotiations Committee.

By early 1987, chairmen had been selected and each of the 15 negotiating groups had developed an initial negotiating plan for its activities during 1987. To date, the negotiating groups have completed two full cycles of meetings and have entered a third cycle. The United States has tabled concept papers or proposals in a number of these groups, covering MTN agreements and arrangements, tariffs and nontariff measures, agriculture, natural resource-based products, subsidies, functioning of the GATT system, and dispute settlement. With the aim of providing added impetus to the negotiations, the United States has indicated its intention to table negotiating proposals in most of the negotiating groups by November 1. A number of proposals have also been made by other participants in the negotiations, most notably in the

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CLASSIFIED BY *Daniel M. Sullivan*

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area of services and safeguards, and additional proposals from diverse countries are anticipated this fall.

We should anticipate that the Uruguay Round will move into a more earnest and difficult phase in the second half of this year as countries are forced to address the proposals put on the table and countries, such as the United States, with ambitious goals for the Round seek to move beyond the initial phase into actual negotiations.

### **EARLY HARVEST**

The Punta del Este Declaration specifically provides for the possibility of implementing agreements "on a provisional or definitive basis . . . prior to the formal conclusion of the Negotiations." Given the strong protectionist pressures domestically and abroad and the urgent need for improvement of the world trading system, the United States has strongly favored the conclusion of an "early harvest" of concrete and meaningful agreements so long as this would not undercut our longer term objectives for the UR. (The TPRG reviewed, and approved, the Administration approach to early harvest on May 6, 1987.)

To accomplish this objective, the United States has adopted a strategy to push for progress on all issues, while seeking to conclude agreements by fall 1988 on particular issues wherever this is possible and desirable. If prospects for an early harvest are favorable, a Ministerial-level meeting of the Trade Negotiations Committee would be held in the fall 1988, serving as the platform for describing the progress achieved in the first two years of the Uruguay Round and for announcing a package of tangible results. While a considerable number of other countries have shown interest in the concept of early harvest, there is not yet agreement among GATT countries to this approach. Late this year we should be able to gauge the extent of international support for early harvest and, if feasible, to secure a broad-based, high-level commitment to its achievement.

Agriculture, FOGS, dispute settlement, tropical products, and a framework agreement for services are among the subjects frequently mentioned as candidates for early harvest.

### **KEY OBJECTIVES AND PROBLEMS**

#### **SERVICES**

U.S. Objective: The development of binding internationally-agreed rules that would be applied to a broad list of service sectors, and the negotiation of specific trade liberalizing agreements applying to individual service sectors.

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Key Problems:

-- The U.S. must better determine the level of commitment it can undertake in some specific sectors -- aviation, banking, and transportation pose particular problems.

-- There will continue to be strong LDC opposition to progress in services negotiations.

TRADE-RELATED INVESTMENT MEASURES

U.S. Objective: The negotiation of multilateral rules to prohibit the use of investment measures that have trade restricting and distorting effects and, if possible, multilateral principles on national treatment and right of establishment.

Key Problems:

-- Continued LDC resistance to any GATT activity (in particular, to any discussion of national treatment or right of establishment) in this area, despite the Punta del Este declaration.

-- More refined private sector positions, assessment of the implications for States and review of issue from trade perspective are needed.

INTELLECTUAL PROPERTY

U.S. Objective: To negotiate international standards that provide adequate and effective protection of intellectual property rights, including enforcement and dispute settlement mechanisms.

Key Problems:

-- It will be difficult to convince many developing countries either to permit the GATT to move into this area or to adhere to higher standards;

-- EC "foot dragging," which largely reflects internal jurisdictional problems and their more limited negotiating objectives, is also a major problem; and

-- Achievement of our objective may require revision of U.S. law, e.g., an exemption of signatories from Section 337 and a new trade secrets law.

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AGRICULTURE

U.S. Objectives: a) A complete phase-out over 10 years of all agricultural subsidies that directly or indirectly affect trade, coupled with the phase-out over 10 years of export subsidies and import barriers, and b) international harmonization of health and sanitary regulations.

Key Problems:

-- Achievement of U.S. objectives will pose major political problems for the United States, the European Communities, Japan and other European countries. In the United States, we can expect increasing opposition from those concerned about losing the benefits of current farm programs and proportionate Congressional concern. The EC may try to prolong negotiations, as well as the phase-in period. The Japanese will be fundamentally negative to reform.

-- We must expect that most developing countries will resist reform under the assumption they are exempt from commitments because of "special and differentiated" treatment.

MARKET ACCESS (TARIFFS AND NONTARIFF MEASURES)

U.S. Objective: To improve market access abroad for U.S. exports through the reciprocal reduction of U.S. and foreign tariff and nontariff trade barriers. We have proposed an integrated request-offer negotiation covering both tariffs and nontariff measures.

Key Problems:

-- The United States has proposed that countries with high tariffs (most developing countries) use an automatic formula to reduce all their tariffs; countries with low tariffs (most developed countries) would negotiate only on specific tariff items. It is unlikely that many developing countries will accept our proposal since they have consistently insisted on "special and differentiated" treatment, i.e., that developing countries undertake a lower level of obligation than developed countries.

-- Under a request/offer procedure on specific products, we are likely to receive requests on import sensitive products on which we will have difficulty making concessions.

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NATURAL RESOURCES:

U.S. Objective: To negotiate rules to eliminate trade distortions arising from government intervention in natural resource pricing and government-imposed export restrictions.

Key Problems:

-- Virtually no other country supports our effort to expand the discussion of natural resources beyond traditional sectors; in particular, there is considerable resistance to moving into a discussion of energy-based natural resources. There is also strong resistance to moving beyond market access issues.

-- Other participants, particularly the EC, may seek to use this group to open up GATT discussion of fisheries management issues -- a course strongly opposed by the United States.

TROPICAL PRODUCTS:

U.S. Objectives: To enhance, and avoid damaging, our objectives in other negotiating groups; to engage the developing countries on a multilateral, rather than a North-South, basis in the negotiating process; and to make clear to them that they are going to have to "give" in order to "get."

Key Problems:

-- Most tropical products are agricultural products. The dilemma is how to accommodate the developing countries in tropical products negotiations without prejudicing our interests in the agricultural negotiating group.

-- Most barriers remaining on U.S. imports of tropical products are on import sensitive items where it will be difficult for us to make concessions. However, insofar as they are included in the Agriculture Negotiating Group, we have already indicated a willingness to put them on the table.

-- The developing countries will continue to balk at the thought they will have to grant any concessions in these negotiations.

FUNCTIONING OF THE GATT SYSTEM

U.S. Objectives: a) To enhance GATT surveillance over Contracting Parties' trade policies and practices, b) to improve the effectiveness and decision-making of the GATT as

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an institution, and c) to strengthen the GATT's relationship to the IMF and the World Bank.

Key Problems:

-- Key developing countries, e.g., Brazil and India, are likely to oppose an enhanced relationship between the GATT and the IMF and World Bank since they are uncomfortable with the liberalization programs promoted by the latter institutions.

-- We must better define how an enhanced relationship between the GATT, IMF and World Bank would work in order not to weaken the effectiveness of the latter institutions, which are generally more stringent in their surveillance of quantitative restrictions than is the GATT.

DISPUTE SETTLEMENT

U.S. Objectives: To obtain improvements in the GATT dispute settlement system that will make it more expeditious and effective; to deal in an effective manner with the problem of "blocked" panel reports.

Key Problems:

-- We need to decide how far we are prepared to go in making panel decisions binding and in limiting our power to retaliate in the trade area without authorization by the GATT dispute settlement process. Although a binding panel process has obvious advantages, it leaves no check against erroneous panel reports and could well be turned against us when the United States takes or threatens retaliatory measures not sanctioned by GATT against practices we regard as unfair (but which do not necessarily breach GATT rules as presently constituted).

-- Regardless of our position, other key countries such as the EC, Brazil, and Japan may resist efforts to restrict their ability to block or delay panel proceedings

GATT ARTICLES

U.S. Objective: To renegotiate articles of interest to us -- in particular, to improve the existing GATT articles dealing with balance-of-payment restrictions, infant industry, and state trading.

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Key Problems:

- Lack of support from both developed and developing countries for any change in GATT Article XVIII (balance-of payments, infant industry).
- Internally, we need to define our objectives re GATT state-trading provisions and other articles in which we seek renegotiation.

MTN AGREEMENTS AND ARRANGEMENTS:

U.S. Objective: To use this group to promote improvement of the standards and import licensing codes while not weakening any current code obligations or undermining on-going efforts to negotiate improvements in the codes (e.g., government procurement) through the Code Committees.

Key Problems:

- Other participants may seek to use this group either to intrude upon the work of the existing codes or to focus discussion on U.S. practices (e.g., U.S. antidumping/CVD laws).

SAFEGUARDS

U.S. Objective: International agreement to a more comprehensive discipline over safeguards covering "gray area measures" and establishing new rules stipulating, inter alia, time limits compensation, injury requirements, transparency, and degenerativity. In return for greater safeguards discipline, we would expect the acceptance by advanced developed countries of higher levels of trade obligations, including the binding of tariffs and more stringent discipline on the use of GATT balance of payments and infant industry provisions.

Key Problems:

- Depending on the discipline agreed, the United States might have to modify Sections 201 and 406; the Congress might be reluctant to do this.
- Depending on the discipline agreed, the Administration may lose some of its discretion on how to handle politically-sensitive trade issues where we are unable to provide compensation to our trading partners (e.g., autos and steel).
- We need to decide internally how to deal with the issue of selectivity. Acceptance of some form of selectivity is probably essential if any agreement is

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to be reached. However, introduction of even highly restricted selectivity into the GATT system will meet strong resistance from developing countries. Moreover, establishment of linkage between safeguards and LDC "graduation" will be difficult.

#### SUBSIDIES/COUNTERVAILING DUTIES

U.S. Objective: To seek improvements in existing subsidy rules that lead to, *inter alia*, effective discipline over trade-distorting domestic subsidies, elimination of agricultural export subsidies, graduation of advanced developed countries, effective discipline over indirect government transfers of resources to specific industries or sectors, including so-called "industrial targetting," and an effective dispute settlement mechanism.

#### Key Problems:

- There is little international consensus on the need for improvements in existing disciplines; GATT parties have vastly different agendas in the subsidies area.
- Other countries will push for concessions in U.S. countervailing duty law as the price for an improved subsidies discipline.

#### SURVEILLANCE (STANDSTILL/ROLLBACK)

U.S. Objective: To maintain a political, non-legalistic interpretation of the standstill/rollback commitment; to use this group to highlight particularly objectionable trade practices in such a way as to promote a favorable negotiating result.

#### Key Problems:

- The United States will face pressure to include gray area measures within the scope of the standstill/rollback commitment -- something we have opposed.
- Several agencies felt that we must find ways to assure the private sector that the standstill commitment does not preclude the United States pursuing actions under Sections 201 and 301.

#### WORKER RIGHTS

U.S. Objective: To secure a review of the relationship between worker rights and GATT articles, objectives and related instruments, with a view to ensuring that benefits of expanded trade are available to all workers.

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Key Problems:

-- There is widespread opposition by other countries to discussing worker rights in the Uruguay Round. This subject does not fall under the mandate of any existing negotiating group.